Council on Postsecondary Education
October 10, 2001

Development of 2002-2004 Operating Recommendation: Benchmark Funding

The Kentucky Postsecondary Education Improvement Act of 1997 (House Bill 1) eliminated the funding formula used to develop the biennial funding recommendations for the public colleges and universities and directed the council to develop a new funding approach. The council, in cooperation with the institutions and the executive and legislative branches, developed a benchmark funding model for the 2000-02 operating recommendation. This model compared funding at Kentucky institutions to public funds of similar non-Kentucky institutions.

Following the 2000 legislative session, the council, the Strategic Committee on Postsecondary Education (SCOPE), and the presidents undertook a comprehensive review of the process used in developing the 2000-02 funding recommendation. The resulting *Points of Consensus* included provisions to retain benchmark funding with the following modifications for the 2002-04 operating recommendation:

- The institutions were given the opportunity to revise their benchmarks.
- If feasible, state funding for debt service and mandated public service and research programs having no instructional function would be excluded from the benchmark funding calculation.
- A standard tuition and fees revenue deduction was established to determine the 2002-04 state appropriation funding objective.

Each of these changes is described below.

Benchmark Institutions. Based on provisions in the *Points of Consensus*, each institution could replace up to five benchmark institutions. It was agreed that institutions with medical schools would not be selected as benchmarks for the Kentucky comprehensive universities. Seven institutions chose to renegotiate their benchmarks. The University of Kentucky, the University of Louisville, and the Kentucky Community and Technical College System did not renegotiate their benchmarks. Enrollment and financial data for the revised benchmark institutions are used in the 2002-04 benchmark funding calculations.

Debt Service and Mandated Programs. As indicated in the *Points of Consensus*, if feasible, state funding for debt service and mandated public service and research programs having no student enrollment or instructional function will be deducted from the state support amounts at the benchmark and Kentucky institutions. MGT of America, Inc., conducted a survey of the benchmark and Kentucky institutions and is analyzing the data. The council staff will provide an update on the survey at the meeting.

Tuition and Fees Revenue Standard Deduction. A key consideration in the development of each institution's funding need is the amount of public funds that should be generated by tuition and fees. According to the *Points of Consensus,* a set percentage for tuition and fees revenue, or budgeted tuition and fees revenue, whichever is lower, will be deducted from the public funding amount to determine the 2002-04 state appropriation objective. At its May 2001 meeting, the council established a standard tuition and fees revenue deduction of 37 percent for the public universities, excluding Kentucky State University. For the KCTCS, KSU, and Lexington Community College the standard deduction is 30 percent. A summary of the 2002-04 tuition and fees deduction calculation is provided on Attachment A.

2002-04 Funding Need

Several factors will be used to calculate a 2002-04 funding need for each institution including the tuition and fees revenue deduction, the funding objective, transfer of trust funds to the institutions' base appropriations, and estimated fall 2001 enrollment. These last three items are addressed below.

Funding Objective. A measure of central tendency (defined as an average of a set of observations such as a mean, median, or a percentile) will be used to determine the 2002-04 funding objective for each institution. At its September 2001 meeting, the council approved the average of the 50^{th}, 55^{th}, and 60^{th} percentiles as the funding objective.

Because the benchmarks' public funds per full-time equivalent (FTE) student are derived from 1998-99 financial data, the funding objective was increased by the actual inflation rate for 1999-2000 (2.7%) and 2000-01 (3.4%) and a projected rate for 2001-02 (3.2%) to compare with current Kentucky funding levels. A similar approach was used in the 2000-02 benchmark funding process.

Transfer of 2000-02 Trust Funds. The calculations to determine each institution's funding need will include some allocated 2000-02 trust funds. These funds include the action agenda funds, workforce training funds, and some enrollment growth and retention funds.

Enrollments. The 2000-02 operating budget recommendation was based on fall 1998 actual FTE enrollments, the most current data available. Due to the recent and projected increases in enrollment, the council staff and institutions agreed to use estimated fall 2001 FTE enrollments to calculate the institutions' 2002-04 funding needs. A summary of each institution's estimated enrollment is shown on Attachment B.

Preliminary Recommendations

The funding recommendation for each institution will be based on either a benchmark "phase-in" amount or the *2002 Branch Budget Request Guidelines* (promulgated by the Legislative Research Commission) inflationary increase of 2 percent each year, whichever is greater. However, the annual increase will be limited to 10 percent. A similar approach was used for 2000-02 benchmark funding. A summary of the institutions' preliminary benchmark calculations is provided on Attachment C. These calculations are presented for discussion purposes only. Assuming different phase-in funding periods, the calculations indicate an additional funding need for 2002-04 of:

Three Year Phase-in	$72 million
Four Year Phase-in	$63 million
Five Year Phase-in	$56 million

These amounts have not yet been adjusted to exclude debt service or mandated programs from the benchmark funding calculations.

The council may wish to discuss any or all of these issues.

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